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TITLE OF RESEARCH: AN EMPIRICAL STUDY OF NIDHI COMPANIES IN MAHARASHTRA STATE

AN EMPIRICAL STUDY OF NIDHI COMPANIES
IN
MAHARASHTRA STATE

A RESEARCH PROPOSAL

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by

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ABSTRACT

India has a complex structure and a large network of Banks and NBFCs. If we consider the banking Sector Banks are classified into scheduled and non-scheduled banks. Scheduled banks care further classified as commercial banks and cooperative banks. Commercial Banks classified into public sector banks, private sector banks, foreign banks and Regional Rural Banks (RRB). On the other hand, cooperative banks are classified as urban and rural. Besides this, a new addition to the structure is Small finance banks and Payments banks

The Indian banking system consists of 21 public sector banks, 19 private sector banks, 45 foreign banks, 56 regional rural banks, 1490 urban cooperative banks and 93,550 rural cooperative banks, add to this Cooperative Credit Institutions, Micro Finance Companies, Gold Loan Companies, Housing Finance Companies and Mutual Benefit Finance Company also called as Nidhi Companies

In spite of such a robust system and structure the Financial literacy rate in India is very low. According to a global survey conducted by Standard & Poor's Financial Services LLC. close to 76% Indian adults lack financial literacy. The unbanked population (i.e. people who do not have access to Savings Account or borrowing facility from formal channels) in India is close to 19 Crores. While the number of bank accounts have increased as a result of the governments initiatives for Financial Inclusion on the other hand according to the world bank Global Findex database report released in April 2018, 48% of the country's bank accounts have seen no transactions in the last one year.

In the context of above information, it seems Financial literacy alone may not be sufficient to reach the goal of Financial inclusion. Along with Financial literacy Financial disciple is equally important. Could Nidhi companies which

have been incorporated with the object of developing the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit, serve as a stepping stone to achieve Financial literacy and Financial disciple thereby acting as a catalyst for furthering the agenda of Financial Inclusion.

It is therefore important to study how Nidhi Companies are working, their current status, structure, performance, customer demographics, financials their socio-economic impact and the extent to which they have been able to achieve their objectives.

INTRODUCTION

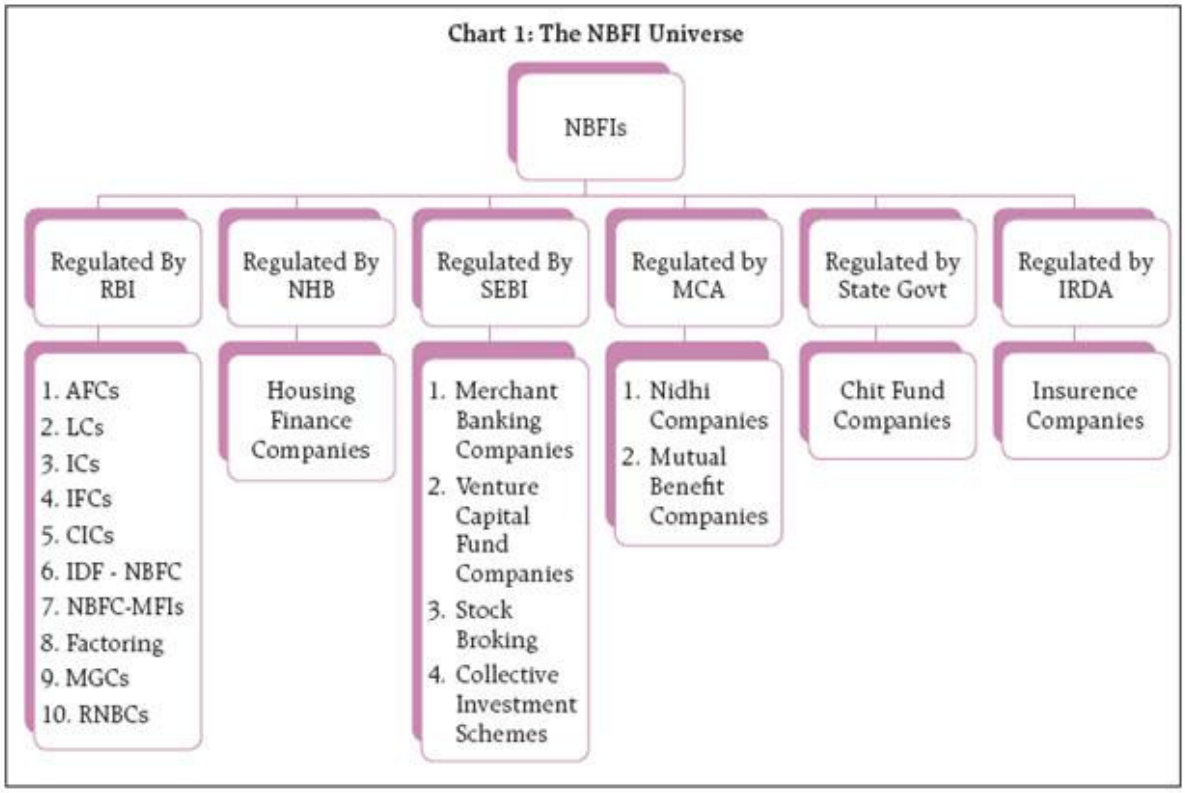
Nidhi is a Hind word which means “Funds” i.e. a sum of money saved or made available for a particular purpose.

“Principle of Mutuality” (“Paraspara Sahaya”) is the basic concept of Nidhi. Hence, Nidhis function for the common benefit of its Members/Shareholders

Nidhi means a company which has been incorporated exclusively with the object of developing the habit of thrift and reserve funds amongst its members, receiving deposits, and lending to its members only for their mutual benefit. Thus, the core business is borrowing and lending money between their members/shareholders only against jewels, mortgage of immovable property and fixed deposit receipts.

So primary function of a Nidhi is to safeguard the financial conditions of its members/Shareholders by promoting the savings and utilization of funds by its members/shareholders.

Nidhi Company is a type of an NBFC, notified by the Central government, which is regulated by the Ministry of Corporate Affairs and is registered as a company under the provisions of section 406, of the Companies Act, 2013. These companies are also regulated by the Nidhi Company Rules, 2014. RBI is empowered to issue directions to Nidhi Companies in matters relating to their deposit acceptance activities.



ORIGIN AND HISTORY of NIDHI COMPANY

Nidhis also known as Permanent Fund, Benefit Funds, Mutual Benefit Funds and Mutual Benefit Company started functioning in India long before the organised financial Institutions started catering to the credit needs of common

people. They were mostly popular in southern states particularly Tamil Nadu. There were many such companies formed and functioning prior to the existence of Indian Companies Act 1913. These institutions were set up by group of public spirited and philanthropic individuals locally. The area of operation was confined to their society's – within municipalities and panchayats

The main objective was to provide relief and rescue the economically weaker sections, low income groups and middle-class people from the clutches of high Interest money lenders in the absence of structured banking system. Nidhis encouraged its members to save money and the deposits so mobilized were used to lend its members, at reasonable rate of interest. Nidhis inculcated the idea of thrift and savings in the minds of its members and at the same time helped the "have – nots". Thus, Nidhis were socially evolved Institutions.

Nidhis transacted only with their members / Shareholders. Accepting Deposits and lending were permitted only with their members / Shareholders. Shares of nominal value were issued for this purpose. These Shares could neither be traded in the Stock Exchange nor sold in the Market.

Since Nidhis operated locally, both the lender and the borrower were from the same area. Hence, the background of the borrower was well known to the lender. Each loan granted was fully secured as it was backed by tangible asset, namely Gold Jewels or Immovable Property. Financial requirements for family functions, children's Education, Marriages, Medical Treatment and property Acquisition and the like could he easily met by the common man without hassles because of the presence of Nidhis. For many, many decades Nidhis were functioning mostly on the basis of self-regulations and with the least

Government Control. As long as these self-imposed regulations were adhered to, all was well. The Nidhi Companies got a statutory recognition when Companies Act 1956 was passed and section 620-A was introduced by Act 65 of 1960. Later based on the recommendations of Report of Sabanayagam Committee on Nidhis, 2000 and Report of the Expert Group on Nidhis, 2002 further amendments were made and regulations introduced by way of Nidhi Company Rules, 2014 to make the Nidhi Companies more investor friendly and secure the interests of Depositors

STATEMENT OF PROBLEM

India has a robust network of banks and NBFCs. However, the financial literacy rate is much lower and with all the Government initiatives Financial Inclusion still remains a distant dream.

The focus of this proposed research will be on the empirical study of Nidhi companies in Maharashtra to understand if the Nidhi companies which are incorporated with the object of developing the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit, could serve as a stepping stone to achieve Financial literacy and Financial disciple thereby acting as a catalyst for furthering the agenda of Financial Inclusion.

NEED FOR RESEARCH

A vast population is still struggling with financial literacy. Whereas Financial literacy does not automatically mean Financial discipline. Though financial inclusion is not regarded as a basic human right, its importance can't be

undermined. Financial Inclusion contributes to economic and social equality and hence it needs to be considered as a right rather than a privilege.

The findings and outcomes of this Proposed Research topic may provide guidelines to general public and concerned authorities for improving the financial literacy and reducing Financial exclusion.

SIGNIFICANCE OF THE STUDY

The study will be beneficial in general to understand the interdependence of Financial literacy, Financial discipline and Financial inclusion. The study will help existing and future Nidhi companies to come up plans and strategies to effectively inculcate habit of financial discipline in their customers. Various agencies and governments organisations working for improving financial literacy and minimising financial exclusion will get insights into Nidhi companies as a tool for spreading financial literacy and accelerating Financial inclusion.

REASON FOR SELECTION OF RESEARCH PROBLEM

A lot of work has been done on how to create Financial literacy, Financial discipline and Financial inclusion and different ways and methods of improving them. However, there is no specific data, information or body of work available on whether the Nidhi companies are fulfilling their incorporation objective of financial discipline or How Nidhi companies could be effective in promoting the agenda of financial literacy and financial inclusion.

OBJECTIVES OF THE RESEARCH

1. To Study the Deposits, Loans and Shareholding Patterns of Nidhis
2. To find out if Nidhis are deviating from Nidhi Company Rules 2014
3. To ascertain the role of Nidhis in the viable development of financial literacy and the habit of financial discipline amongst the people.
4. To determine the role of Nidhis in the extent of financial inclusion and potential for economic growth of those segments of society which do not have access to conventional banks / NBFCs
5. To understand the people's awareness and preference for Nidhis companies

HYPOTHESIS OF THE RESEARCH

1. Nidhis are maintaining Net owned funds to Deposits ratio of 1:20 as per the Nidhi Rules 2014.
2. Nidhis are maintaining Unencumbered term deposits of not less than 10% of the outstanding deposits with Scheduled commercial bank as per the Nidhi Rules 2014.
3. NC borrower's shareholding is higher as compared to depositors.
4. The awareness of Nidhis is low, independent of the socio-economic profile of the people.
5. The Nidhis have been successful in extending access of basic financial instruments to the segment untapped by the conventional Banks/NBFCs in the last five years

SCOPE AND LIMITATION OF THE STUDY

The scope of this research is restricted to the Nidhis operating in Maharashtra and registered under Sec 406 of the Companies Act 2013. As of 30 April 2019, as per Ministry of Corporate Affairs (MCA) website there are 4135 Nidhi Companies in India registered under Sec 406 of the Companies Act 2013 out of which 660 are in Maharashtra. Besides geographical limitation the periodical scope of this study will be from 2013 to 2021 which means new companies registered on or before 30th March 2021 will be considered for sampling

RESEARCH DESIGN AND METHODOLOGY

Primary Data

Data will be collected through Primary Sources like Questionnaire, Interview, Survey**,** Field visits

Secondary Data

Secondary data will be sourced through Government Publications, periodicals, publications of federal bodies/ associations. Reports of various committees Ministry of Corporate Affairs (MCA), RBI, Publications, Websites, newspapers, journals, Magazine, research papers.

Sample Design & Method

Currently there are 660 NCs in Maharashtra registered under Sec 406 of the Companies Act as on 31st April 2019. For this study NCs registered during April 2013 to March 2021 will be considered. 30% of these Nidhi companies would be taken as a sample ensuring all the six Administrative regions of Maharashtra are adequately represented.

TENTATIVE SCHEME OF CHAPTERS

- Chapter 1: Introduction.
- Chapter 2: Review of Literature
- Chapter 3: Research Methodology
- Chapter 4: Profile of Selected Nidhi Companies
- Chapter 5: Data Interpretation
- Chapter 6: Findings, Suggestions & Conclusion

LITERATURE REVIEW

K. Parimalakanthi and Dr. M. Ashok Kumar (2015) studied individual investor behaviors which have shown that they do not necessarily act in a rational manner, rather their investment decisions are influenced by several factors. They wish to evaluate the determinants of individual investor's behavior in Indian financial market

Bhushan Puneet (2014) has undertaken a study to assess the awareness level and investment behavior amongst salaried individuals regarding financial products. A sample of salaried individuals of Himachal Pradesh was considered as the population for this study. The study indicated that most of the respondents put their money in traditional and secure investment options, owing to their poor awareness

Mathivanan R. and Mohanaranjani (2013) submitted a research paper to investigate the gap between financial literacy and saving/investment behavior among working women. The findings of the study show that while women have displayed high level of awareness i.e. financial literacy towards traditional saving/investment options, they have not actively shifted their saving/investment avenues from traditional bank saving options to modern technically risky capital market operations.

Rangarajan, C. (2009) comments that "economic growth and social development are the two legs on which a nation must walk and FI is no longer an option but a compulsion." He emphasizes that one facet of Inclusive Growth is FI. The process of FI involves efforts to bring the weaker and vulnerable

sections of society within the sphere of the organized financial system, and Inclusive Growth cannot come without FI.

Nufazil Altaf (2014) in his study titled, “Towards Financial Inclusion”, elucidates that financial inclusion is a prerequisite to economic development. The same has been seconded by various national and international bodies. This shows the financial inclusion is paramount in creating inclusive development. The paper infers that enhanced information technology, business models, broadening of product and services within the lower end markets can act as important measures to encourage financial inclusion.

Savita Shankar, (2013) wrote an article titled, “Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers?”, This article examines if microfinance institutions (MFIs) sufficiently break down barriers to financial service access in India. The article followed two lines of enquiry: the degree of microfinance penetration in the country was studied and field interviews of 103 MFI field officers were conducted. It was found that while MFIs do break down many barriers to financial inclusion, there are limitations in the extent of their outreach to those excluded. Firstly, MFI penetration in the country is askew and ignores some areas neglected by the banking sector, signifying a need for policy incentives to promote expansion to those areas. Secondly, even in areas in which MFIs operate they are unable to offer services to some financially excluded individuals owing to their methods of operation.

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